

ILLINOIS COMMERCE COMMISSION

DOCKET NO. \_\_\_\_\_

DIRECT TESTIMONY

OF

MICHAEL G. MUELLER

Submitted On Behalf

Of

UNION ELECTRIC COMPANY

d/b/a AmerenUE

AND

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

d/b/a AmerenCIPS

November 22, 2000

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**1. Q. Please state your name and business address.**

A. My name is Michael G. Mueller. My business address is One Ameren Plaza,  
1901 Chouteau Avenue, P.O. Box 66149, St. Louis, MO 63166-6149.

**2. Q. By whom are you employed and in what capacity?**

A. I am Vice President of Ameren Services Company (“Ameren Services”). I also  
am Vice President of Ameren Energy Fuels and Services Company (“AFS”).  
Both of these companies are subsidiaries of Ameren Corporation, and are  
affiliates of Union Electric Company, doing business as AmerenUE, and Central  
Illinois Public Service Company, doing business as AmerenCIPS.

**3. Q. Please provide your educational and employment history.**

A. I have a bachelor’s degree in mechanical engineering from the University of  
Missouri-Rolla. I also have a master’s degree in business administration from  
Southern Illinois University-Edwardsville. I joined AmerenUE in 1986 as an

31 engineer in its Corporate Planning Department. In 1988 I became a fuel buyer in  
32 the Fossil Fuel Department, and in 1994 was named senior fuel buyer. In September  
33 1998, I became director of coal trading for Ameren Corporation's energy marketing  
34 subsidiary, AmerenEnergy, Inc. In January 1999, I was named Manager of the  
35 Fossil Fuel Department of Ameren Services. I held this position until October of  
36 2000 when I was named Vice President for AFS and for Ameren Services. I  
37 currently serve on the board of directors of the Western Coal Council and the Coal  
38 Trade Association.

39  
40  
41 **4. Q. What is the purpose of your direct testimony?**

42  
43 A. The purpose of my direct testimony is to support, on behalf of AmerenUE and  
44 AmerenCIPS ("the Applicants"), statements made in the Application filed for  
45 approval of the Fuel and Natural Gas Services Agreement ("the Agreement") to  
46 be entered into by the Applicants and by AFS. In doing so, I will explain what  
47 AFS intends to do in terms of providing services for the Applicants, for other  
48 Ameren affiliates, and also for non-affiliated third parties.

49  
50 **Q, Please briefly describe the Applicants.**

51 A. AmerenUE owns and operates an electric transmission and electric distribution  
52 system in Illinois. It also owns and operates a natural gas distribution system in  
53 Illinois. AmerenUE also owns and operates an electric transmission and electric  
54 distribution system in Missouri, together with a gas distribution system in that  
55 state. Further, AmerenUE owns and operates electric generating facilities in both

Missouri and Illinois. Recently, AmerenUE has proposed to transfer its Illinois electric and gas businesses, except for generation, to AmerenCIPS. As I understand it, once the transfer is accomplished, AmerenUE will cease operating as a public utility in Illinois.

AmerenCIPS owns and operates an electric transmission and electric distribution system in Illinois. AmerenCIPS no longer owns any generating facilities, and has transferred such facilities to an affiliate, Ameren Energy Generating Company, pursuant to the Commission's Order issued in docket no. 99-0345. AmerenCIPS also owns and operates a natural gas distribution system in Illinois.

**Q. What are the Applicants seeking in this proceeding?**

A. The Applicants are asking the Commission to consent to, and approve, the Agreement so that AFS may perform for them various fuel and natural gas related procurement and management services.

**Q. What entity is currently performing these services for the Applicants?**

A. Ameren Services is currently performing these services under the terms of the General Services Agreement ("GSA"). The Commission approved the GSA as part of the Union Electric-CIPSCO, Incorporated merger ("UE-CIPSCO merger") in docket no. 95-0551.

**Q. Please describe AFS and its expected activities.**

79           A.     AFS is an Illinois corporation and a subsidiary of Ameren Corporation. It is  
80                   designed to engage in services relating to the procurement and management of a  
81                   variety of energy-related commodities and goods, including coal and natural gas.  
82                   It may also develop, own and operate facilities related to fuel procurement,  
83                   transportation, handling and storage, and may also participate in joint ventures  
84                   with other companies and entities to facilitate the development and operation of  
85                   such facilities. AFS desires to engage in such activities for the benefit of the  
86                   Applicants, other Ameren affiliates, and also non-affiliates.

87  
88           **Q.     Why was AFS formed?**

89           A.     AFS was formed because energy markets in Illinois and in other parts of the  
90                   Midwest are changing and becoming increasingly more competitive. These  
91                   changes have been prompted by Illinois' 1997 legislation which restructured the  
92                   electric utility industry and phased in retail choice, and by similar legislation in  
93                   other Midwestern states. As a result, Ameren must adapt to such changing  
94                   markets to ensure that the Applicants receive the necessary fuel, natural gas, and  
95                   other energy-related services at the best cost consistent with their obligation to  
96                   provide reliable and safe service to the public in Illinois. These changing  
97                   markets also present opportunities for Ameren. In particular, they present  
98                   opportunities for Ameren to provide fuel and natural gas procurement and  
99                   management services to non-affiliated customers, such as other utilities,  
100                  independent power producers, industrial customers, and others. We would like to  
101                  pursue these opportunities, and plan to do so in such a way that they will not

adversely impact the fuel procurement and management services needed by the Applicants. In fact, our pursuit of these opportunities should create benefits for Applicants.

**Q. Why not use Ameren Services instead of AFS to pursue these opportunities for services to non-affiliates?**

A. As discussed in the Application filed in this matter, there are certain restrictions under the Public Utility Holding Company Act (“PUHCA”) and the Securities and Exchange Commission’s (“SEC’s”) regulations that limit the ability of Ameren Services to engage in certain activities that AFS will undertake. Further, from a business perspective, it is beneficial to concentrate the business risks associated with fuel and natural gas procurement and management services in a separate entity. These business risks include the possibility of litigation, and the triggering of liquidated damages provisions and escalation clauses in fuel and fuel related contracts.

As a result, we will structure AFS in such a way that its services to non-affiliates for AFS’ own account will be kept separate from its services rendered to the Applicants as their agent and for their benefit. We will do so through the use of separate contracts, books and records, transactional statements and invoices, and also through accounting entries that segregate the transactions of AFS for its own account from the transactions of AFS as agent for the Applicants. Consequently, the costs involved with the transactions of AFS for its own account will not be

charged to the Applicants. Further, any business risks which AFS chooses to take on regarding activities for its own account with non-affiliates will remain with AFS, and will be structured so as not to impact either Ameren Services or the Applicants.

**Q. Please describe the Agreement.**

A. The Agreement follows the format of the GSA. It provides that AFS will perform certain services to the Applicants at cost in accordance with the SEC's regulations. Section 2 of the Agreement lists the services which AFS would be expected to perform for the Applicants. They include the following: 1) to provide (in the case of AmerenUE) resources necessary to procure coal and other fuel and related transportation, and to manage such items and assets, including resale and risk management activities; 2) to provide resources necessary to procure natural gas supply, storage and pipeline transportation capacity, and to manage such items and assets, including resale and risk management activities; 3) to provide and manage other energy-related commodities, including but not limited to petroleum coke, alternative fuels, propane, limestone, oil, ash, emissions contracts, and weather contracts; 4) to provide planning and budgeting, business reporting, transaction administration, rail car and other fuel related asset management, operational coordination, contract and counter-party administration, regulatory reporting, support and compliance, ash management activities, management of emissions accounts, and the negotiation, execution and administration of contracts between the Applicants and third parties necessary to

facilitate the above; and 5) to provide other related activities as requested.

(Agreement, page 3)

**Q. How will the services provided under the Agreement compare with the services provided under the GSA?**

A. The services listed above would include the same services which Ameren Services is currently performing for the Applicants. They also include some new services which are in response to the evolving energy markets, and which are designed to provide more flexibility for the Applicants.

**Q. How will you ensure that the Agreement will not harm the Applicants?**

A. As indicated above, we will keep separate the transactions which AFS enters into on its own account from the transactions which AFS enters into on behalf of the Applicants. AFS will enter into separate contracts, use separate invoices and accounting entries, and take other appropriate steps to segregate the transactions it engages in for its own account with non-affiliates from the transactions it enters into on behalf of the Applicants as their agent. Also, AFS will be structured such that the costs of AFS' transactions for its own account will not be charged to the Applicants.

Additionally, AFS will make available to the Commission and its Staff all documents, personnel, and books and records of AFS which relate to transactions between AFS and the Applicants. In particular, AFS will provide to Staff in



171 response to its requests all contracts which AFS enters into for the purchase or  
172 sale of any energy-related commodities, whether AFS purchased such  
173 commodities for the Applicants, for itself, or for some other party. Further, I can  
174 state on behalf of the Applicants that they do not intend to object to any requests  
175 for information by the Staff if such requests relate in any way to the services  
176 which AFS is providing for the Applicants.

177  
178 Finally, some additional explanation as to the role of AFS as agent for the  
179 Applicants should help demonstrate that there will be no harm. Applicants  
180 recognize that there may be concern regarding the operation of the Purchased Gas  
181 Adjustment clause ("PGA"). Concerning rates, AFS does not intend to impose  
182 any new types of costs on the Applicants in addition to those that Ameren  
183 Services is currently imposing on the Applicants under the GSA. In particular,  
184 with respect to the PGA, the Applicants intend to recover only the same types of  
185 costs as are currently included in the PGA. Further, the Applicants will not  
186 attempt to double recover any costs through both the PGA and base rates.

187 **Q. What benefits are there to Applicants and their ratepayers as a result of the**  
188 **Agreement?**

189 A. AFS will be buying larger volumes of coal, natural gas, and other energy-related  
190 commodities as a result of its new structure in which it will be performing  
191 services for Ameren affiliates and also for non-affiliates, as compared to the  
192 present situation in which Ameren Services is designed to perform services only  
193 for Ameren affiliates. As a result, AFS will have a greater presence in energy

194 markets in the Midwest. Also, by engaging in new opportunities and business  
195 ventures, AFS is likely to obtain additional market intelligence which should  
196 benefit the Applicants through lower prices for energy-related commodities.

197

198 **Q. Does this conclude your testimony?**

199 A. Yes, it does.

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